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# CURRENT INTELLIGENCE WEEKLY SUMMARY

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THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

BULGANIN AND KHRUSHCHEV  
IN SOUTH ASIA. . . . .

Page 1

25X1 Bulganin and Khrushchev, who have arrived in India accompanied by a staff of over 100, give every indication of being prepared to make new offers of economic and technical assistance in New Delhi as well as Rangoon and Kabul. In their statements the Soviet leaders have been emphasizing those aspects of Soviet policy which are in harmony with the neutralist policies of Nehru and U Nu. [REDACTED]

AFGHAN TRIBAL ASSEMBLY  
UPHOLDS DAUD'S POLICY. . . . .

Page 2

25X1 Afghanistan's Grand Assembly of the Tribes (Loe Jirgah), which ended on 20 November, in effect gave Prime Minister Daud a vote of confidence on foreign policy. As a result, closer ties can be expected to develop between Afghanistan and the USSR. [REDACTED]

PART II

NOTES AND COMMENTS

25X1 Arab-Israeli Situation: There was an increase during the past week of minor incidents in the area on the frontiers between Jordan and Israel. Israel continues to press for arms from the West, and Egypt has also renewed efforts to obtain arms from Western sources. [REDACTED]

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French Morocco: The optimism expressed by high French officials in Paris and Rabat since the return of Sultan Mohamed ben Youssef to Morocco on 16 November does not appear to be warranted. Wide gulfs still remain between the positions of the government in Paris, the French settlers, officials in the protectorate, and the leading Moroccan nationalists. The sultan apparently is moving ahead rapidly with the formation of a government. [REDACTED] . . . . Page 2

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French Elections: Premier Faure has not yet given up hope of elections in January, but parliamentary delays may postpone balloting until early spring. Meanwhile, there is a possibility that Faure will be overthrown as a result of the assembly's aversion to his supplementary appropriations bill or as a result of adverse North African developments. [REDACTED] . . . . . Page 3 25X1

Baghdad Pact Meeting: The first conference of the Baghdad pact nations, which was held in Baghdad on 21 and 22 November, resulted in the establishment of a permanent organization to carry on political, economic, and military planning for mutual aid among these states and "to defend their territories against aggression or subversion." [REDACTED] . . . . . Page 3 25X1

New Afghan Trade Routes: Afghanistan is continuing its development of new international trade channels, particularly through the Soviet Union. The Afghans' policy in this matter is the result of Pakistan's blockade of their traditional trade routes last summer and the continuing poor relations with Pakistan. Kabul may not intend to substitute goods produced in the Soviet bloc for all its Western imports, but dependence on the new routes will make Afghanistan more susceptible to Soviet influence. [REDACTED] . . . . . Page 4 25X1

The Situation on Cyprus: The latest mass violence on Cyprus may develop into guerrilla warfare between well-organized and well-armed Greek-Cypriot extremists and the approximately 15,000 British troops now in the colony. The recent British formula to solve the Cyprus issue is unlikely to meet Cypriot Nationalist demands. [REDACTED] 25X1  
[REDACTED] . . . . . Page 6 25X1

Malayan Government Resumes Operations Against Communists: The Malayan government has ordered the resumption of military operations against Communist terrorists following a large-scale attack by the terrorists in central Malaya. While this action presumably brings an end to preliminary truce talks between Communist and government emissaries, the prospects are that the Communists will continue to seek a settlement in the hope of expanding their influence as an overt political organization. [REDACTED] . Page 7 25X1

Soviet Bloc Military Manpower Reductions: Recently announced plans by the Soviet, Bulgarian, Rumanian and Albanian governments to reduce terms of conscript service may reflect an intention to maintain armed forces personnel strengths at reduced levels, as indicated by Soviet bloc declarations following the summit conference. Sufficient evidence has not accumulated to establish the degree to which the announced manpower cuts are being carried out, but shortening terms of conscript service would be one method of reducing personnel strengths with virtually no loss of military capabilities. [REDACTED] . Page 7 25X1

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**USSR Prepares to Tighten Laws Against "Speculation":** In the current revision of the Soviet criminal code, consideration is being given to strengthening the sections dealing with "speculation," defined as the purchase of goods by individuals with the intent of selling them at a profit. The old law is no longer adequate for combating this acute problem as it exists today in the USSR. [REDACTED] . . . . . Page 9

**South Vietnam Wants Closer Association With SEATO:** South Vietnam is eager for more direct association with SEATO. Several pact members, however, can be expected to oppose any move to that end. [REDACTED] . . . . . Page 10 25X1

**Brazil:** Brazilian war minister Lott seems ready to go to any lengths to assure the inauguration of President-elect Kubitschek on 31 January. He has refused to permit Café Filho to resume the presidency, and Acting President Nereu Ramos, backed by Lott, seems certain to receive state-of-siege powers to frustrate Café's appeal to the Supreme Court. Though dissident elements in the armed forces are apparently making no effort to contest Lott's position by force, his extralegal activities are building up ill will for Kubitschek. [REDACTED] . . . . . Page 11

**Argentine Political Unrest:** The rumored arrest or resignation of several army generals reflects continuing dissension within the Aramburu government, which may also face new labor difficulties. [REDACTED] . . . . . Page 11 25X1

**Guatemala Calls Sudden Congressional Election:** Guatemala's first congressional election since the overthrow of the pro-Communist Arbenz regime in June 1954 is to be held on 18 December under regulations proposed solely for this election and prior to the promulgation of the new constitution. [REDACTED] . . . . . Page 12

**PART III****PATTERNS AND PERSPECTIVES****ARGENTINA'S ECONOMIC SITUATION** . . . . . Page 1

Hints of an impending urgent request by Argentina's Aramburu government for American economic aid point up the serious shortages of foreign exchange, capital equipment and raw materials which are part of Argentina's legacy from the Peron regime. The foreign exchange shortage, which makes impossible the imports essential for economic recovery, is the government's most immediate problem. The payments deficit may

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become severe enough by the end of the year to force the government to adopt a politically unpalatable policy of sharp economic retrenchment. Argentina does, however, retain a favorable trade balance with the Soviet bloc. Trade with the bloc in 1954 was almost five times as large as in 1953. [REDACTED]

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CHINESE COMMUNISTS MOVE TO RAISE EDUCATIONAL STANDARDS . . . Page 4

Communist China, with a goal of training 95,000 engineers by the end of its first Five-Year Plan in 1957, is making energetic efforts to improve the quality of its higher educational system. This improvement in quality is also being applied to the training of about 900,000 technicians and teachers and 900,000 skilled workers. Soviet influence in Chinese education continues strong; over 9,000 Chinese students will study in the Soviet Union during 1953-57. [REDACTED]

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THE COMMUNIST ECONOMIC CAMPAIGN IN THE NEAR EAST AND SOUTH ASIA . . . . . Page 6

In its efforts to penetrate the Near Eastern and South Asian countries, the Sino-Soviet bloc has in recent months moved from a series of modest and vague offers of technical aid and economic credits to the threshold of more substantial economic ventures. Trade between the USSR and the Near East and South Asia grew 28 percent during the first six months of this year. The Communist program seems assured of continued and growing reception in the underdeveloped countries.

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## PART IV

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## PART I

OF IMMEDIATE INTERESTBULGANIN AND KHRUSHCHEV  
IN SOUTH ASIA

Soviet premier Bulganin and party leader Khrushchev have received a far more elaborate welcome in New Delhi than the Indian government has accorded the representatives of any other state. The cordial reception has provided the two Russians with an auspicious backdrop for proclaiming the major outlines of Soviet policy with full confidence that every point made will be repeated and debated in the press and radio throughout the Asian-African countries.

After a two-week stay in India, the Soviet leaders and their entourage of approximately 100 will go to Burma on 1 December for one week. One report says Bulganin will be invested with the title of Thud Hama, the highest honor the Burmese government can bestow. Khrushchev and Bulganin will reportedly spend several days in Rangoon, and then undertake an extensive tour upcountry. Part of the trip will be by motor car, necessitating extensive security precautions, as some of the roads to be traveled have been the scenes of recent guerrilla attacks by both Communist and non-Communist dissidents.

The Soviet leaders will then pay a second visit to New Delhi for formal negotiations with Indian leaders, and after that will proceed to Afghanistan. Reports of plans for a subsequent stop in Cairo have not been confirmed. They may also meet with King Saud of Saudi

Arabia, who is to begin a state visit to India on 26 November. The Soviet leaders would then have an opportunity to discuss Moscow's offer of arms and its request to establish diplomatic relations.

Bulganin and Khrushchev are accompanied by a high-level staff qualified to discuss political, trade, and cultural relations with the South Asians. The inclusion of officials associated with the Uzbek and Tadzhik Republics is apparently meant to emphasize the ethnological ties between the Soviet Asiatic peoples and the peoples of South Asia. There are Uzbek and Tadzhik minorities in Afghanistan.

The Soviet leaders have given every indication they are prepared to make new offers of economic and technical assistance. Khrushchev reportedly told the Indians on 22 November, "We shall share our last piece of bread with you; we shall nourish you and aid you."

Fully aware that India is facing difficulties in drawing up its second Five-Year Plan, Bulganin has publicly offered to share the USSR's experience in "the construction of industrial enterprises, electric power stations, hydro projects, and the utilization of atomic energy for peaceful purposes." This offer in the atomic field is one of the best propaganda moves the USSR could make in South Asia and can be exploited

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to "prove" the USSR's peaceful intent. The offer also suggests that the USSR is beginning a program of assistance outside the Sino-Soviet bloc in competition with the UN-sponsored atoms-for-peace program.

Khrushchev and Bulganin have arrived in South Asia at a time when they have no outstanding disagreements with any leaders they are scheduled to see. While the question of local Communists may be raised, the Soviet emissaries will be quick to deny that Communists anywhere are directed from Moscow and to assure Asians that the USSR does not desire to "export" revolution.

The statements of the Soviet leaders in India suggest that they are emphasizing those aspects of Soviet policy which are in harmony with the neutralist policies of Indian prime minister Nehru and Burmese premier U Nu. They have already reiterated the "five principles" in numerous variations.

Nehru's reminder to the Soviet leaders on 20 November that India disapproved of military blocs and "the piling up of armaments" was countered by Bulganin before the Indian parliament next day with a denunciation of military groupings and a reiteration that the Soviet Union is dedicated to achieving the prohibition of nuclear weapons despite Western obstacles.

The Soviet leaders have lost no opportunity to blame the West, especially the United States, for the lack of agreement on the international scene. The Indian press was strongly critical of Soviet "intransigence" at Geneva just prior to Bulganin's and Khrushchev's arrival. However, some late reports indicate that this type of comment is being "stifled" by accounts of the Bulganin-Khrushchev visit.

Khrushchev told the Indian parliament that "we cannot close our eyes to the fact that the spirit of Geneva causes indigestion to certain persons... still trying to follow the notorious policy of 'from a position of strength.'" Bulganin had assured the Indians the night before that the USSR has "not lost hope" as a result of the foreign ministers' deadlock at Geneva.

On the Indian side, Nehru stated just prior to the arrival of the Soviet leaders that India would not follow the doctrines adopted by the USSR and China. Moreover, Indian editorials since the beginning of the visit have not been entirely laudatory. The Indian government is apparently trying to convey to the world that the warmth of the welcome is not to be interpreted as an outright endorsement or acceptance of Soviet policies. [REDACTED]

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#### **AFGHAN TRIBAL ASSEMBLY UPHOLDS DAUD'S POLICY**

Afghan prime minister Daud's internal position has been strengthened and he has been given a relatively free hand in foreign policy by the

Grand Assembly of Tribes (Loe Jirgah) which ended on 20 November. As a result, closer ties will probably develop between Afghanistan and the USSR.

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The assembly's approval of Daud's demand for independence of the Pushtoon areas of Pakistan committed the whole nation to what had previously been primarily the policy of the prime minister and the royal family. The assembly's charge that Pakistan's receipt of military aid "from great powers" has upset the balance of power in the area and its advice to the government to strengthen defense by "any possible ways and means" with such equipment as is "honorably procurable" will give Daud confidence in pursuing the co-operation with the Soviet bloc which has already begun.

Daud apparently manipulated the assembly adroitly, although some objection to his policies reportedly was voiced by about 30 percent of the tribal leaders. There was more opposition on the Pushtoonistan issue, which is viewed by the chiefs as an unfortunate quarrel between two Moslem states, than on the question of accepting foreign arms. Those who doubted the wisdom of obtaining arms from the Soviet bloc were silenced by references to recent actions by Moslem Egypt and the Saudi Arabians, who are the "custodians of the holy places."

The assembly's reference to "honorably procurable" equipment constitutes a peg on which future restrictions on Daud's dealings with the Soviet bloc could be hung. President Eisenhower's letter to King Zahir offering his personal assistance in reconciling Afghan-Pakistani differences also keeps the door open for a new approach to the West. The opposition was thoroughly outmaneuvered by Daud, however, and the king apparently failed to make effective use of the letter to counter Daud's Soviet-oriented proposals.

Daud may attempt to capitalize on the letter in a final bargaining attempt with the United States. [REDACTED]

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[REDACTED] Af-ghanistan's increasing use of the Soviet transit route, and the continuing tension on the Pakistani border make it unlikely that Daud will spend any substantial amount of time in bargaining with the United States. He will probably seek further support from Bulganin and Khrushchev when they visit Kabul in mid-December. [REDACTED]

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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## PART II

NOTES AND COMMENTSArab-Israeli Situation

The center of activity on the Arab-Israeli borders has shifted to the frontier between Jordan and Israel. There was an increase during the past week of minor incidents in this area. While Tel Aviv privately admits that Jordan's Arab Legion is attempting to prevent Arab penetrations into Israel, it still holds the Amman government responsible for terrorist attacks which may be inspired by Egypt. Israel may take retaliatory action against Jordanian forces unless the border violations and incidents of terrorism diminish.

Egypt and Israel continue to maintain defensive military positions in the El Auja area, while UN truce chief General Burns is attempting to obtain agreement from Cairo and Tel Aviv to UN peace proposals, which involve the withdrawal of Egyptian and Israeli troops. Israel has agreed in principle to the UN plan, while Egypt has offered counterproposals which Israel thus far appears unwilling to consider. Israel, however, apparently anticipates no serious fighting either in this area or on the border with Syria and reportedly has withdrawn supporting brigades from both those sectors.

Tel Aviv is particularly concerned over the increase of terrorist infiltrations from Jordan and believes that these attacks are being directed by Egyptian military officers. In the opinion of General Burns, Arab raids are being planned by lower-echelon Egyptian officers or by the Mufti of Jerusalem without the concurrence of Prime Minister Nasr.

Israeli foreign minister Sharett, visiting in the United States, is continuing his

all-out effort to alert opinion to Israel's need for additional arms and for larger contributions for the development of his country's economic resources. While Sharett is seeking a security treaty from the United States, leftist parties in the new coalition government still stress the importance of Israel's maintaining a neutral foreign policy and purchasing arms from any source, including the Soviet bloc.

No new departures in Soviet policy toward the Arab states have been observed. Moscow has continued, however, to push forward along lines already laid down. Soviet ambassador Solod had a lengthy interview with Gamal Salim, Egypt's vice premier, on 19 November, reportedly concerning the Aswan High Dam complex.

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Moscow radio also evinced interest in the Saudi dispute with Britain over the Buraimi oasis, which suggests that the USSR would support Saudi Arabia if the Buraimi dispute is raised in the UN.

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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French Morocco

The optimism expressed by high French officials since the return of Sultan Mohamed ben Youssef to Rabat on 16 November does not seem warranted.

Wide gulfs still remain between the positions of the government in Paris, the French settlers and officials in the protectorate, and the leading Moroccan nationalists. Moreover, the outbursts of violence this past week end may indicate that the moderate nationalist leaders will have difficulty reasserting control over the extremists in their ranks.

The secretary general of the French Foreign Ministry has expressed conviction that the sultan realizes his responsibilities and recognizes the need for a negotiated settlement with France. The French resident general in Rabat, André Dubois, and his staff characterized the sultan's speech of 18 November as "statesmanlike." Dubois has also expressed high hopes for the promised French-Moroccan negotiations, which he expects will take place in Rabat.

Even if these officials have correctly assessed the Moroccans' desire for negotiations, they seem to discount both the obstructionism of the French bureaucracy in Morocco and the influence of extremists among the French settlers.

While the Presence Française has apparently stopped its counterterrorist campaign, at least temporarily, recent public statements indicate it has not given up its demand that the French settlers have a voice equal to that of the Moroccans in any new government. Since Moroccan nationalists reject this demand, the settlers will be alert for any excuse to insist that French interests can be protected only by

military strength. If terrorism continues, these elements will intensify their demands that force replace negotiation.

Even if violence is eliminated, basic French and Moroccan differences probably will soon lead to renewed friction. Although the sultan in his speech on 18 November gave strong reassurances to the French population in Morocco and referred to a "new relationship of interdependence between Morocco and France," he avoided any mention of "permanent ties" with France--a point to which Paris has attached much importance.

The main nationalist party, Istiqlal, has demanded an early transfer of defense and foreign affairs to a Moroccan government. While Paris may be resigned to granting such concessions eventually, it is not prepared to do so now. Many Moroccan nationalists, meanwhile, remain convinced that concessions can be won from France only by force.

The sultan apparently is moving ahead rapidly with the formation of a Moroccan government. The resignation of Premier-designate Fathmi ben Slimane--who was appointed under the earlier Council of the Throne arrangement--has paved the way for the appointment of someone acceptable to Istiqlal, probably the sultan's long-time close adviser, Si Bekkai.

The prompt formation of a Moroccan government would intensify pressure on Paris for an early start of the promised negotiations, which, according to a French Foreign Ministry spokesman, may begin in late January. Any attempt by Paris to delay these negotiations would likely result in new and widespread violence in Morocco.

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French Elections

Premier Faure has not yet given up hope of elections in January, but the National Assembly's delaying tactics may postpone balloting until early spring. Meanwhile, there is a possibility that Faure will be overthrown as a result of the assembly's aversion to his supplementary appropriations bill or as a result of adverse North African developments.

December elections were ruled out when the assembly obliged the government to work out a redistricting plan to meet the requirements for a two-ballot system with single-deputy districts. Mendes-France's supporters had fought for delay and maneuvered to stall government action by first voting to consider the upper house's amendment calling for single-deputy districts, and then voting to postpone further debate on it until the government presented its redistricting bill.

Faure called on the prefects of 89 of France's departments to establish voting districts in their departments, and they in turn presented their plans to the government on 21 November. While many of Faure's coalition supporters oppose the system of single-deputy districts, they were apparently willing to accept it in the hope of advancing the election date.

Before debate on the plan can be completed, Faure's opponents may seize on the traditional budgetary issue to overthrow him rather than use the more controversial issue of early elections. Members of the assembly finance committee have already challenged his bill providing for more than \$200,000,000 in supplementary appropriations which must be considered soon. New outbreaks of violence in North Africa would provide additional ammunition for the premier's enemies.

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Baghdad Pact Meeting

The first conference of the Baghdad pact nations, held in Baghdad on 21 and 22 November, resulted in the establishment of a permanent organization to carry on political, economic, and military planning for mutual aid among these states and "to defend their territories against aggression or subversion."

The single objective to which all the Baghdad pact countries (Pakistan, Iran, Iraq, Turkey and Britain) will admit is resistance to Soviet aggression, direct or indirect. Only Turkey and Britain appear to have firm opinions on the

pact's future and functions. The final communiqué announced no provision for a joint command and detailed military planning will be left for the future.

Iran seems to have only vague ideas, but desires a NATO-type organization with close ties to the West. Tehran also believes its "exposed position" vis-a-vis the Soviet Union qualifies it for special consideration, and it would like to see an Iranian as the pact's permanent secretary general. Pakistan wants "the

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strongest possible organization," but it does not wish to go as far as a NATO-type structure. Iraq has indicated no firm ideas on the pact and probably hopes to use it to increase its prestige in the Arab world.

Iraqi premier Nuri, in his opening speech to the pact nations, presented them with the thorny Arab-Israeli dispute. He stated that Iraq "will not hesitate to use its resources" to aid any Arab state faced by Israeli aggression, and that it still maintains its obligations to the Arab collective security pact. The Baghdad group as a whole, however, is not able to commit itself on this issue, nor on other local issues such as the Afghan-Pakistani dispute.

The possibility of bringing other states into the pact is of great interest to the five members. All the participating countries welcomed an American observer at the meeting and the United States will be urged to join the pact in the near future. Syrian and Jordanian adherence is also considered desirable by most members.

Britain has expressed willingness to revise the Anglo-Jordanian alliance of 1948 should Jordan decide to join the pact. Jordanian prime minister Said al-Mufti is reported to have approached the British ambassador in Amman with "tentative requisites" for Jordanian adherence, including extensive military aid. Britain, however, is informing Jordan it cannot commit itself to such aid in exchange for jointing the pact.

Turkey, whose prime minister recently visited Jordan, is particularly interested in winning the adherence of the Arab states. Syria, under heavy adverse pressure from Egypt and Saudi Arabia, is not a likely candidate at present. Israeli membership is not under consideration.

Britain has announced a willingness to give military and economic assistance to other Baghdad pact members as the organization enlarges its membership, and Iran, Pakistan and Iraq will probably use their greater responsibilities under the pact as an excuse for seeking more aid from the United States.

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New Afghan Trade Routes

Afghanistan is continuing its development of new international trade channels, particularly through the Soviet Union. The Afghans' policy on this matter is a result of Pakistan's blockade of traditional Afghan trade routes last summer and recent renewed bitterness between the two countries. Kabul may not intend to substitute goods produced in the

Soviet bloc for all its Western imports, but dependence on the new routes will make Afghanistan more susceptible to Soviet influence.

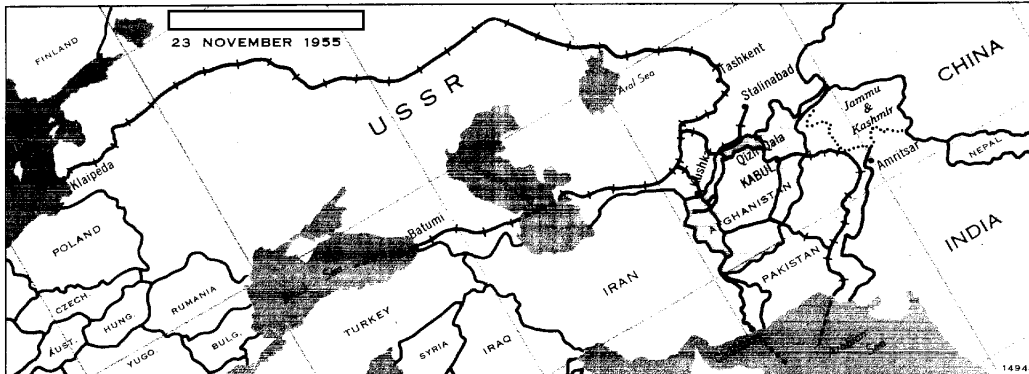
Western shipments are reported moving into and out of Afghanistan through the Soviet ports of Batumi on the Black Sea and Klaipeda on the Baltic. Costs and transport time are

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**Afghanistan's Trade Routes**



said to be less than through Pakistan. Kabul is now issuing export licenses for goods going to Europe only for the routes through the USSR.

Afghanistan has requested that all trade [redacted] follow these routes.

The terms of the Afghan-Soviet transit agreement signed last June are reported to be liberal and provide for the expediting of Afghan goods and minimal freight charges. Transit rights are reciprocal and were made more specific in a supplementary agreement completed on 15 October.

Afghan imports from the Satellites are also reported moving through the USSR, and the development of a quick and economical route through Soviet territory will probably result in expansion of Afghan trade with the bloc.

The Afghans are also making efforts to develop a surface route from the Persian Gulf through Iran, and an airlift from India. Difficult terrain and inadequate port facilities would make the route through Iran of minor value [redacted]

[redacted] Afghan government's shipments, however, are reportedly still being delayed and restricted in Pakistan, and Kabul probably wants to reduce dependence on the route to an absolute minimum.

Despite primitive roads in northern Afghanistan and meager warehouse facilities at transfer points on the Afghan-Soviet border, the routes through the USSR provide the only feasible substitute for transshipment through Pakistan. India is

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said to be worried about the possibility of losing an approximately \$15,000,000 annual textile market in Afghanistan. Since high freight costs make air shipment of textiles impractical, the Afghan market may be taken over by the Soviet Union unless Indian goods can

also be routed through Soviet Black Sea ports.

Afghanistan will be wary of becoming overly dependent on the Soviet routes, but in view of the present tension with Pakistan, it probably sees less danger in relying on the Soviet Union than in depending on Pakistan.

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The Situation on Cyprus

The latest mass violence on Cyprus may presage guerrilla warfare between well-organized and well-armed Greek-Cypriot extremists and the approximately 15,000 British troops now in the colony. The recent British formula to solve the Cyprus issue is unlikely to meet Cypriot Nationalist demands.

Britain on 21 November offered a compromise proposal to the Greek government and to Cypriot Nationalist leader Archbishop Makarios. The formula includes self-government for the people of Cyprus now and a promise that London "will be prepared to discuss the future of the island with representatives of the people of Cyprus when self-government has proved itself a workable proposition and capable of safeguarding the interests of all sections of the community." Since the offer does not provide for Cypriot self-determination within a specific time limit, it will almost certainly be rejected.

With national Greek elections scheduled for early spring, the government of Prime Minister Karamanlis would be risking political suicide if it agreed to the British plan. Makarios

is already under attack by Nationalist extremists, which include some of his bishops, for his conciliatory attitude in recent talks with the British governor of Cyprus.

The control of the enosis movement on Cyprus may be passing from Makarios' hands. The intensified terrorism of the past week suggests that he is being repudiated by the extremists and indicates that resistance to the British will continue even if the archbishop consents to support a compromise.

The Cypriot Communists, who have long accused Makarios of plotting with Athens to "betray" the Nationalist cause, appear to be making fresh efforts to gain leadership of the enosis movement. The leader of the Cypriot Communist Party for the first time announced support of Nationalist terrorism last week and at the same time claimed a 50-percent increase in party membership during the past two months.

Nationalist acceptance of the Communists' co-operation would greatly increase Britain's difficulties in restoring order.

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Malayan Government Resumes  
Operations Against Communists

An attack on 20 November by a large band of Communist terrorists on Cameron Highlands, a resort town in central Malaya, has resulted in a government order for the resumption of full-scale military operations against the guerrillas. This action presumably brings to an end the preliminary truce talks between Communist and government emissaries in Klian Itan, a town near the Thai border.

Prior to the Communist attack there had been indications that the chief minister of the federation government, Abdul Rahman, was wavering in his determination to have nothing to do with the Communists except to "explain" the terms of the 8 September amnesty, which the Communist envoys had denounced as "unreasonable." He had recently stated in public that he was prepared to hear the Communists' case.

Malayan officials are willing to grant the Communist leaders a "free place in society" as an inducement for them to

surrender. The British authorities, opposed to such leniency but at the same time extremely reluctant to risk an open breach with the Malaysians, might have consented to discussions covering more than the terms of the amnesty.

Since Rahman is a party to the order for reintensifying military action, the British dilemma has abated somewhat for the time being. Should the Communists offer a guarantee against further attacks, it is unlikely that either Rahman or the British would seriously object to a renewal of talks for a cease-fire.

The prospects are that the Communists will continue to seek a settlement. Despite their recent show of strength, their military position has become increasingly difficult. Moreover, they probably estimate that the widespread desire for an end to the eight years of fighting leaves them little to gain politically through a continuation of guerrilla warfare. Communist success in gaining influence within the Chinese community through overt means as well as the possibilities for promoting differences between the British and Malaysians are also important inducements for the Communists to find a way to operate in the open.

Soviet Bloc  
Military Manpower Reductions

Recently announced plans to reduce terms of conscript service in the USSR, Bulgaria, Rumania and Albania may reflect an intention to maintain armed forces personnel strengths at reduced levels,

as indicated by Soviet bloc declarations following the summit conference. Sufficient evidence has not accumulated to establish the degree to which the announced manpower cuts are being implemented,

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but shortening terms of conscript service would be one method of maintaining reduced personnel strengths with minimum loss of military capabilities.

On 8 November, Bulgarian officials announced a decision to shorten the terms of conscript service for personnel throughout the armed forces, in most cases from three to two years, beginning next May. On 16 November, the Albanian Council of Ministers proposed a reduction of compulsory military service to two years for some elements of the armed forces. The presidium of the Rumanian National Assembly decreed on 22 November that the period of active military service is to be reduced from three to two years for ground forces and from four to three years for naval personnel, to take effect between 1 December 1955 and 1 November 1956.

The USSR announced on 15 November that the term of service for sailors and petty officers of the navy and for soldiers and sergeants of the air and coastal defense forces would be cut by one year. It is possible that the USSR also intends to reduce the actual length of service for conscripts in the ground forces but refrained from including them in a public announcement because conscripts have actually been held in service for three years despite a two-year legal term of service.

The bloc may thus intend to use reduction in terms of service as one method of maintaining a smaller number of personnel in active military service, although other methods, such as the superannuation of older officers, may also be employed to accomplish the promised cuts.

Full implementation of the announced 640,000 reduction in

Soviet military strength by means of shortening conscript terms would appear to require the release of a substantial part of one conscript class in advance of the normal discharge date. Thus far, however, there has been no evidence that conscripts from other than the 1933 class, the class normally eligible for release from the ground forces this year, are being discharged this fall.

Bulganin told the Indian parliament on 21 November that the Soviet government has, "in the main," carried out the 640,000 reduction. Although it is possible that some of the Soviet army units withdrawn from Austria, Port Arthur, and Porkkala have been demobilized, there is no definite evidence of deactivation of any major units.

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The Polish press claimed on 9 November that large numbers of troops and officers were being demobilized in accordance with promised reductions. No independent confirmation is available, however.

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The more than 1,000,000 men now in the European Satellite armies represent only a part of the total ground strength that could be brought to bear in the event of war. With Soviet logistic support the Satellite ground forces

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could be increased to approximately 4,700,000 men within six months after M-day.

Trained reserves in the Soviet ground forces are estimated at 6,500,000, and within six months after M-day the ground force could be brought to a strength of approximately

11,875,000. The shortening of conscript terms would probably allow adequate training to maintain present effectiveness and, by keeping constant the number of men released into the trained reserves each year, preserve the mobilization potential.

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USSR Prepares to Tighten Laws Against "Speculation"

As part of the current revision of the Soviet criminal code, consideration is being given to strengthening the sections dealing with speculation, an acute problem for the USSR.

A recent issue of Soviet State and Law points out that the section of the criminal code dealing with speculation is obsolete and recommends that it be expanded to cover all types of goods and such intangibles as a place on a waiting list to buy a new car. The minimum sentence for speculation should be reduced to less than five years' imprisonment as a means of encouraging courts to prosecute for minor violations.

In the Soviet Union speculation is defined as the purchase of goods by individuals with the intent of reselling them for a profit. In Soviet eyes such practice constitutes a serious crime because it allows persons through no "honest" work on their part to become rich from others' labor and it violates basic socialist law by undermining the state's control over the distribution of goods.

The Soviet economy, by its very nature, encourages speculation. Not only are many basic consumer goods in constant short supply but the distribution of goods is extremely erratic and uneven. Seasonal shortages of staples in certain areas are common, and it is no rarity for a state store to be overstocked in one nonessential item while devoid of all the most basic goods.

Speculation has become an even more serious problem in the last few years as income has risen faster than goods available for purchase in state stores. At the same time, the growing incomes, which permit increased bidding for luxury items, have extended the range of speculation beyond the simple commodities of mass consumption.

In such a situation speculation thrives. Everything from razor blades and zippers to automobiles and television sets is involved. The resulting profits are clearly worth the risk for a Soviet citizen of an enterprising nature. According to a local newspaper, one Bairamov "outdid them all" in imagination. He chartered a plane in Archangel, flew to

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Georgia, bought three tons of tomatoes, and later resold them on the shores of the White Sea for five times what he had paid for them.

The section in the criminal code dealing with speculation, as the authors of the State and Law article point out, is not adequate for combating the problem as it exists today. It was enacted in 1932 and was aimed principally at putting tradesmen and independent farmers out of business. For this reason the law specifies only resale of agricultural and consumer goods as constituting speculation.

The authors maintain that while the law has properly been interpreted by many courts to include such items as jewelry, medicine, lumber, furs and motor vehicles, such items can in no strict sense be termed items of general consumption. For this reason some courts have insisted on a narrow legalistic interpretation and many speculators have gone unconvicted. The authors suggest, therefore, that the law be reworded so that it will clearly apply to all conceivable objects of speculation.

(Concurred in by ORR)

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South Vietnam Wants Closer Association With SEATO

The South Vietnam government, anxious about its fate in the event of a renewal of hostilities by the militarily superior Viet Minh, apparently wants a more formal association with the Manila pact organization. According to the American embassy in Saigon, South Vietnam is "eager to climb on the SEATO bandwagon."

The Manila pact's protective umbrella now extends to South Vietnam as one of the three Indochinese countries given the treaty's benefits under a special protocol. The rapid phase-out of the French military, however, emphasizes to the Vietnamese their diminished security.

Any move to raise Vietnam's status in SEATO would be unacceptable to several pact members. Under the terms of the

Geneva agreement, which was signed by Great Britain and France, Vietnam cannot become a member of a military alliance prior to a final political settlement between the north and south scheduled for July 1956.

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French counselor Hessel in Saigon hopes the Vietnamese will be given no encouragement on closer affiliation with SEATO at this time, lest a more direct association be considered a violation of the Geneva accords and hasten the departure of the international commission. He

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believes, however, that when the commission's role has been fulfilled, SEATO should play a more direct role in the protection of South Vietnam.

The Asian pact members--Pakistan, Thailand and the Philippines--probably would not be averse to South Vietnam's closer association.

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Brazil

Brazilian war minister Lott seems ready to go to any lengths to assure the inauguration of President-elect Kubitschek on 31 January. He has refused to permit Café Filho to resume the presidency, and Acting President Nereu Ramos, backed by Lott, seems certain to receive state-of-siege powers from Congress to frustrate Café's appeal to the Supreme Court. Though dissident elements in the armed forces are apparently making no effort to contest Lott's position by force, his extralegal activities are building up ill will for Kubitschek.

Lott's decision to maintain the status quo, even at the price of his long-standing adherence to legality, has apparently been extremely influential in the army, which two months ago was estimated to be at least 80 percent opposed to Kubitschek. The president-elect is now virtually assured of inauguration and probably of substantial army support after taking office.

Considerable civilian support for the Lott-backed regime is indicated by the large congressional majorities which have passed various resolutions in an attempt to give a color of legality to the administration's

moves. In addition, political leader Adhemar de Barros, who ran a good third in the 3 October election, has publicly offered his support to General Lott.

Kubitschek apparently has not been involved with the Lott-Ramos moves, and he has refused to make any comments on the situation. The unconstitutionality of the latest congressional actions, however, is increasing the bitterness of Kubitschek's opposition and building a reservoir of ill will. Although Café Filho's record as president indicated indecisiveness and unwillingness to assume responsibility, his previous political history as a successful opposition leader suggests that he may be an important asset to Kubitschek's opposition.

The arrests of Communist agitators and General Lott's statement of 23 November that the government must remain immune to "ideologies contrary to the Christian democratic sentiments of our people" suggest that the Communists may receive little political return for the support they gave Kubitschek in the presidential race in October.

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Argentine Political Unrest

The rumored arrest or resignation of several army generals reflects continuing dissension within the Aramburu government, which may also face new labor difficulties.

The generals reported arrested are José Uranga and Leon Bengoa, who were ministers of transportation and army, respectively, in the preceding Lonardi cabinet. Uranga is

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extremely bitter over Lonardi's ouster, while Bengoa opposes government pressure for a public investigation and whole-sale purge of high-ranking army officers who served under Peron.

Two other important leaders of the revolt against Peron--General Julio Lagos, commander in chief of the army, and General Videla Balaguer, head of Cordoba Province--are reported to have requested retirement for thus far unreported reasons. A break between Lagos and the government would be the more serious, since he is reported to have a large following.

Both Lagos and Balaguer are still on duty, however, and the government has denied the reported arrests and resignations in an obvious attempt to reduce rumors of dissension, which appear to be increasing.

Various sources attribute the current unrest to "extreme nationalistic" elements who oppose the present "moderate democratic tendency" of the Aramburu government. At the

same time, influential sources insist that with the ouster of "Nazi" elements appointed by Lonardi, the government has reached "stability." In any case, it is clear that Aramburu is at present the strongest figure on the scene and that many of his present difficulties spring simply from the fact that opposition to Peron was the strongest cohesive factor in the revolutionary forces, with positive plans for a new government being left to the future.

The Aramburu government, which energetically quashed the general strike of 15 November, may face further pressure from labor, possibly in cooperation with nationalist elements. [REDACTED]

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[REDACTED] The government has announced it will use the armed forces to guarantee freedom to work, and various troop units have been assigned to guard against sabotage. [REDACTED]

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#### Guatemala Calls Sudden Congressional Election

Guatemala's first congressional election since the overthrow of the pro-Communist Arbenz regime in June 1954, scheduled for 18 December, is to be held under regulations proposed solely for this election. The sudden scheduling of the election and the circumstances under which it is being held have led to charges that the government is preparing to "rig" the balloting.

Selection of a congress will be an important step in Guatemala's return to constitutional government, which is expected to be completed next March when the new constitution will be promulgated and the new congress installed.

The drafting of the new constitution with its guarantees of individual rights is now nearly complete and it had been assumed until recently that it would be promulgated before the election.

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The 15-month ban on political parties was lifted on 19 November, but only the government-sponsored party, the National Democratic Movement (MDN), will be able effectively to organize its campaign before election day. The electoral law proposed by the government and now being rushed through the constituent assembly contains several provisions which will hamper other parties. The secret ballot, for instance, is to be denied to illiterates, who represent over half of the registered voters. This will enable government forces to recruit and vote groups of Indians en masse, a technique often effectively employed by past regimes in Guatemala.

The fundamental issue of the election is the support or rejection of the regime's basically middle-of-the-road policies. President Castillo's compromise stand on the divisive issue of church-state relations

has antagonized die-hard anticlericals as well as strong partisans of the church. His decision to maintain the basic social gains which emanated from the democratic revolution of 1944, such as social security, labor's right to bargain collectively, and a modified agrarian reform program, has antagonized conservatives, while leftist and pro-Communist elements remain hostile.

Nevertheless, Castillo's continued personal popularity and the support his government has given the MDN are probably sufficient to assure victory for the MDN even in an election under full constitutional guarantees. That he has chosen to hold the election under the present arrangements suggests that he is not sufficiently sure of himself to submit these issues to popular decision under full democratic procedures.

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## PART III

PATTERNS AND PERSPECTIVESARGENTINA'S ECONOMIC SITUATION

Hints of an impending urgent request by Argentina's Aramburu government for American economic aid point up the serious shortages of foreign exchange, capital equipment and raw materials which are part of Argentina's legacy from the Peron regime.

Before Peron was overthrown in September, he had been trying for some time to modify certain of his policies in an effort to gain the confidence of domestic business and foreign investors; but this effort, though producing modest economic improvements, was too little and too late. The two succeeding provisional governments have taken more positive steps in this direction--by announcing a policy of freeing the economy from excessive state controls--but their effort to cope with the country's basic problems is complicated by the delicate political situation they inherited.

Basic Problems

In his decade of power, Peron tried to promote rapid industrialization at the expense of agriculture. This heavily penalized the farmer and resulted in decreased farm production in a period during which the country's population rose by nearly a quarter to over 19,000,000. Agricultural exports, however, still account for about 93 percent of Argentina's total foreign exchange.

Within the country, farm earnings have now dropped to about one third of their prewar purchasing power. When world prices for agricultural products were high, Peron paid the farmers only a part of the high export price. The system of multiple exchange rates gave

them only 5 pesos per dollar for exports but charged them from 7.5 to 14 pesos per dollar for imports. Moreover, they were unable to obtain the necessary exchange permits to maintain and replace farm machinery. Transportation and other facilities needed by the farmers were not adequately maintained. At the present time the areas planted to major crops are only about three fourths of the prewar acreages.

Industry, though in comparison favored by the government, also suffered from state interference in trade and inability to obtain needed equipment and raw materials. Moreover, foreign investors, a formerly important source of capital imports, were discouraged by the Peron government's deficit financing, statutory wage increases, and nationalization of public services. In consequence, industrial productivity lagged seriously.

Under these conditions, Argentina has suffered serious inflation. Its per capita gross national income is, in real terms, some 12 percent below the peak year of 1948. The cost of living has risen about 180 percent above the 1949 average, and despite successive wage increases, real wages are today some 10 percent below the 1949 level. This poses a political problem for any efforts to put a brake on inflation by controlling wages.

Foreign Exchange Deficit

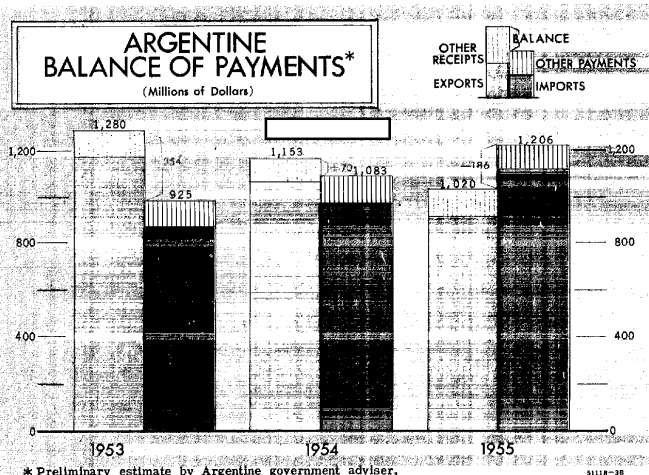
Argentina's most immediate problem, seriously handicapping its ability to obtain the imports essential for economic recovery, is its foreign exchange shortage and its

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The total of outstanding foreign debts was estimated in a preliminary government survey last month as \$757,-000,000, but this apparently has not been adjusted for Argentine credit balances abroad. If total gold and foreign exchange holdings should prove to be less than originally estimated, and if no sizable foreign investments or credits are forthcoming, the payments deficit may be severe enough by

outstanding debts abroad. The trade deficit may be as high as \$250,000,000 by the end of 1955, and even this estimate is predicated on a continuance of the strict import controls which have sharply limited all nonessential items over the past several years.

In January 1955 the Peron government claimed holdings of \$371,000,000 in gold and about \$120,000,000 in dollars and sterling, the latter figure being considered the minimum amount necessary to finance trade with the United States and Britain. The sterling credits were then expected to be considerably reduced by the end of 1955, and continued net trade deficits are anticipated on various bilateral trade agreement accounts other than those with the Soviet bloc.

In addition to these deficits, Argentina is obligated to pay during 1955 about \$28,-700,000 in dollars and \$31,-100,000 in other currencies to service overseas installment purchases and other trade debts. The latter category includes payments on the Export-Import Bank credit of 1950 which was granted to reduce commercial debts owed to American exporters.

the end of 1955 to force the new government to adopt a politically unpalatable policy of sharp economic retrenchment.

The prospects for foreign exchange earnings in the immediate future are not bright. The possibility of increased meat production is offset by a prospective decline in wool and winter grains, wheat acreage being reported at 12 percent under last year's. New price incentives may, however, increase current plantings of corn, sunflower and peanuts.

Argentina is faced, moreover, with an unfavorable trend in the terms of trade for grain and by declining grain markets, notably in Brazil, its largest wheat customer. According to the United Nations Economic Commission for Latin America, the index of Argentina's terms of trade since 1948 (100) declined to 65 in 1954.

#### Trade With Soviet Bloc

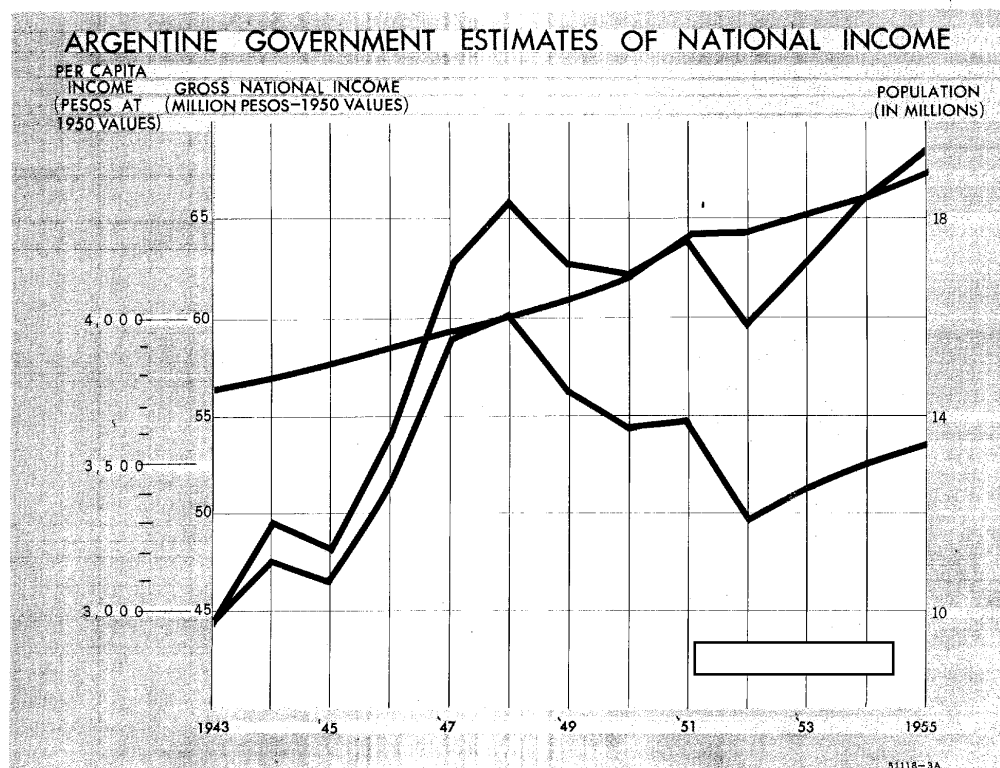
Concern over marketing difficulties turned the Peron regime to the Soviet bloc as an important outlet for the country's agricultural surplus. In 1954 the Soviet bloc took about 20 percent of Argentina's grain surplus and about 10

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percent of its total exports. Total trade turnover with the bloc in 1954 was about \$184,-000,000 as compared to \$39,-500,000 in 1953.

In contrast to its trade deficits elsewhere, Argentina had a favorable balance with the bloc amounting to about \$43,000,000 at the end of 1954. Preliminary information on this trade during the first half of 1955 suggests an increase of about 8 percent over the last half of 1954 in total trade turnover.

The new government's policy regarding trade with the Soviet bloc has not been declared.

#### Policy of the New Government

The essential problem of Peron's successors is to effect a cautious transition from a system of excessive state control over the economy toward a

declared goal of establishing incentives for private enterprise and freer trade. The Lonardi government's first step was to order an extensive analysis of the country's economic and financial position. This continues under a team of experts headed by Raul Prebisch, a former president of the Argentine Central Bank and now executive secretary of the United Nations Economic Commission for Latin America. Prebisch has been appointed an official adviser to the Aramburu government.

Prebisch's preliminary report recommends measures to stimulate the production and export of agricultural products and to attract foreign investment, with a special view to alleviating the payments deficit. He suggests meeting requirements for capital goods with foreign credit and states that the urgent need for petroleum development justifies

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using gold resources if foreign credit is not available.

This recommendation is aimed at correcting one of the principal drains on Argentina's foreign exchange, since petroleum imports account for about \$200,000,000 or nearly a fifth of the country's purchases abroad. Peron's contract with the Standard Oil Company of California for extensive development of petroleum resources in southern Argentina was politically unpopular, however, and the Lonardi government took no action to ratify it before the 30 September deadline. No new oil policy has been announced, though the officials now concerned with the problem are said to believe that foreign financial and technical assistance is necessary. In the near future, however, they will probably avoid such large-scale contracts as that negotiated by Peron.

Some of the Prebisch recommendations have already been carried out. Higher domestic prices have been decreed for agricultural products. The state trading institute, which handled about 70 percent of Argentina's exports and 20 percent of the imports, has been dissolved. The previous multiple exchange rate structure was radically altered on 27 October, when the peso was devalued to 18 to the dollar

for major exports and imports and a free exchange market was established. Some exports and imports--as yet unspecified--are to be handled through the free market.

A Fund for the Restoration of the National Economy is being accumulated by a 10- to 25 percent tax on the peso proceeds of major exports. This fund will enable the government to ease the adjustment between internal and external prices and presumably to support the peso on the free market, where it is currently fluctuating between 30 and 33 to the dollar.

Interest in American Aid

Substantial American financial aid has clearly been a major underlying assumption of both the Lonardi and Aramburu governments in their economic policies. A close friend of President Aramburu told Ambassador Nufer on 16 November that serious economic difficulties were expected in the near future unless the government could obtain prompt assistance, and "informed sources" in Buenos Aires speak of a desire for a \$100,000,000 credit to strengthen Argentina's foreign exchange position.

Nufer expects that the government will soon make a direct approach for financial aid on a "crash" basis.

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CHINESE COMMUNISTS MOVE TO RAISE EDUCATIONAL STANDARDS

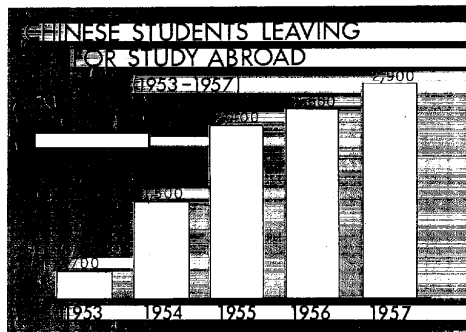
Communist China, with a goal of training 95,000 engineers by the end of its first Five-Year Plan in 1957, is making energetic efforts to improve the quality of its higher educational system. This improvement in quality is also being applied to the training of about 900,000 technicians and teachers and 900,000 skilled workers.

In the past, Chinese Communist officials had attempted unsuccessfully to satisfy the regime's urgent need for trained technicians by mass education techniques and the indiscriminate use of politically reliable but uneducated cadres in key jobs in industry. Earlier expediences had included the drafting of students at mid-term to fill jobs in

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industry and the assigning of students to studies for which they were unsuited.

**Efforts to Improve Education**

Under the regime's current program to raise educational standards, higher technical schools are being changed from four-year to five-year courses of study and some secondary industrial schools are being converted from three- to four-year programs. Short-term courses are being abolished.

Efforts are also being made to overcome the serious shortage of qualified teachers and adequate school facilities. More than 7,000 of last year's 50,000 graduating students were assigned to colleges and universities to help ease the teacher shortage. Some 60 new colleges are to be constructed during the present Five-Year Plan, so that by 1957 China will have 208 institutions of higher learning.

Political reliability and physical fitness as well as academic ability are being stressed in the selection of students for colleges and universities. Industrial workers and demobilized servicemen are given preference in entrance examinations.

Students are required to study Marxism-Leninism and current affairs, and are urged to participate extensively in social and political activities and to adopt a "working-class stand and Communist outlook."

**Stress on Technical Education**

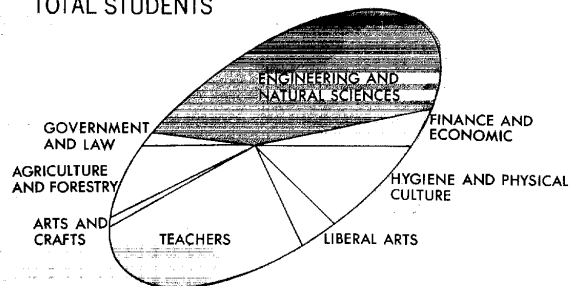
Enrollment figures for 1955-56 show that Peiping's education program continues to be heavily weighted on the technical side. More than half of the new students are going into engineering and the natural sciences, while a quarter are undertaking technical studies in agriculture, medicine and physical education. Moreover, about seven out of every 10 students being sent to the Soviet Union and the European Satellites in the 1953-1957 period will study engineering or the natural sciences.

The number of students enrolling in technical and scientific courses of study in Communist China's colleges and universities during the present Five-Year Plan is expected to reach 247,200. An additional 346,300 students will study engineering in secondary

**HIGHER EDUCATION ENROLLMENT**

COMMUNIST CHINA  
(1953 - 1957)

543,300  
TOTAL STUDENTS



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vocational schools during this same period.

**Soviet Influence**

Soviet influence in higher education in Communist China continues strong. Peiping has publicly stated that the "basic educational aim... is to study and practice Soviet experience." Soviet instructors and textbooks are used in many schools.

Of the 10,000 students Peiping will send abroad during the present Five-Year Plan, 9,400 will go to the Soviet Union and 700 to the Satellites and other countries. These students, whose courses will be primarily technical, will work in "economic construction" after their return. Besides the students, about 11,300 trainees will be sent to the Soviet Union and European Satellites for "practical training."

Those sent abroad for education are bound on their return to exercise an influence out of proportion to their numbers. They will probably constitute an important part of the future technical leadership in China, furthering the adoption of Soviet practices, and promoting the pro-Soviet orientation of China's engineering and scientific personnel.

**Overseas Chinese Students**

Peiping's current emphasis on quality and political

reliability of students may be responsible for the reduction this year in the number of Overseas Chinese students accepted for training in Communist China. The whole subject of Overseas Chinese education received much less attention from Peiping this year, and probably not more than half of the 10,000 new Overseas students claimed by the Communist regime actually arrived in China.

The regime appears to have been tougher this year in selecting students from among the Overseas Chinese, whose educational background and political training Peiping feels are generally not as sound as those of local students. Between 1950 and 1954 some 20,000 Overseas students came to the mainland for study, according to recent Communist figures. During this period fewer than 3,000 went to Formosa to study in Nationalist universities.

Last spring the first group of Overseas Chinese students to complete their training in Communist China were assigned to production and construction projects "on the basis of the needs of the state." The disposition of these 470 graduates suggests that most Overseas Chinese students will remain on the mainland, although it is probable that some will return to the country of their residence. (Concurred in by ORR)  25X1

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**THE COMMUNIST ECONOMIC CAMPAIGN IN THE NEAR EAST AND SOUTH ASIA**

In its efforts to penetrate the Near Eastern and South Asian countries, the Sino-Soviet bloc has in recent months moved from a series of modest and vague offers of technical aid and economic credits

to the threshold of more substantial economic ventures. Trade between the USSR and the Near East and South Asia grew 28 percent during the first six months of this year.

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Although there is apparent high-level co-ordination of the over-all program, a degree of competition among the East European Satellites has developed at the lower levels. The range of Communist activity was indicated by Soviet ambassador Solod in Cairo who stated on 1 October, "We will send economic missions, scientific missions, agricultural missions...and any other kind of mission you can imagine that will help these countries."

In comparison with American aid to underdeveloped countries, the over-all bloc program will, on the whole, be quite modest. However, the manner in which it is being offered, the terms of repayment, and the skill in the selection of the countries and projects involved clearly indicate that the bloc is seeking to gain a maximum political advantage. Some of the deals and offers clearly have the effect of fostering increased dependence on the Sino-Soviet bloc and of increasing Communist influence through the long-term presence of bloc personnel.

Receptivity on the part of the underdeveloped countries to Sino-Soviet economic overtures has increased as a result of the recent series of trips through the bloc by high-level government officials from these countries. Technical experts as well as diplomats have generally been impressed with Soviet technology and with the "sincere" willingness of Communist technicians to participate in local development schemes.

In a typical comment, Major General Sokehy, prominent Indian scientist who recently returned from a three-month tour of Czechoslovakia and the USSR with a plan to make India self-sufficient in

essential drugs with Soviet aid, noted: "It has taken the developed and advanced countries 300 years to reach their present state under the capitalist system. Russia, through a different pattern of society, has come up to their level within the short span of 36 years. Under a similar pattern China is making very rapid progress."

The underdeveloped countries, involved in ambitious development projects and often burdened with unsalable agricultural surpluses, find a ready market for these surpluses in the Sino-Soviet bloc in exchange for capital equipment and, more recently, arms. Communist easy credit terms are an additional important factor in making it difficult for such countries to refuse bloc credits. Most Communist offers involve low interest rates (2 to 3 percent) and repayment over extended periods of time in local currencies and local products. The Communist program, attractive as it is to underdeveloped countries, seems assured of continued and growing reception.

India

The proposed one million-ton capacity Bhilai steel mill is the most ambitious Communist project undertaken in the free world to date. Under the terms of the contract signed on 2 February, Moscow will submit detailed plans this December at which time New Delhi can accept or reject the offer.

From the Soviet side there is every evidence that Moscow intends to provide a modern plant, newly designed from the ground up. Reports that the Soviets are attempting to pass off used equipment is belied by reports that Moscow has ordered Soviet machine building plants to draw up new plans.

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India's new Iron and Steel Ministry has reportedly sent its top project officers to Bhilai and construction of living quarters at the site is apparently nearing completion. Barring some defect in the Soviet plans, and this seems unlikely, it will be difficult for New Delhi to reject the offer. The Kremlin's \$95,000,000 credit on easy payment terms of nothing down and 12 equal payments in local currency at only 2.5 percent interest are not likely to be duplicated in Western money markets. T. T. Krishnamachari, Indian union minister of commerce and industry, has stated that the Soviet steel mill would be built and that he personally was impressed with Soviet technology and technique.

While the steel mill is still subject to final Indian approval, the bloc is actively engaged in several construction projects in India. On 18 June the Indian government announced that Moscow is constructing a diamond mining plant for the Panna Diamond Syndicate, a private Indian company.

The fact that the government made the announcement suggests that there is governmental involvement in the deal. Since the Sino-Soviet bloc has no indigenous source of industrial diamonds, it is likely that Moscow would accept payment for the project in diamonds. It is estimated that the cost of the project will exceed \$6,000,000.

Since early spring of 1954, the USSR has offered to supply India with a cement plant, and aid in the construction of a soda ash plant and a coal washing plant.

The latest Soviet offer includes seven Soviet experts who arrived with Premier Bulganin and Party Secretary Khrushchev to advise New Delhi on exploration and development of the oil industry. The USSR

has offered to supply equipment as well as technical assistance in India's vast mineral development program. The offer includes setting up a plant to manufacture oil prospecting equipment.

Following Nehru's visit to Czechoslovakia, Prague increased its efforts to gain an economic foothold in India. On 6 November a 13-man Czech trade delegation led by Foreign Trade Minister Dvorak arrived in India with proposals to participate in India's second Five-Year Plan which begins on 1 April 1956. Although Dvorak pointed out that Czech capital investment in Indian industry was unlikely since Prague considered this tantamount to economic interference, he stated that technical assistance and capital equipment would be offered. On 9 November, in a meeting with Indian industry and commerce minister T. T. Krishnamachari, Czechoslovakia offered to supply equipment for Indian steel plants.

An Indian military delegation in Prague has requested an arms factory, but not arms themselves. On 1 October Prime Minister Nehru accepted a Czech gift of a twin-engine sports plane.

Hungary is building a copper wire plant at Patiala in northern India. The plant will have a capacity of 170,000 pounds of wire and will be operated, at least initially, by Hungarians. Budapest is also readying offers to construct a cement plant, caustic soda factory and a soda ash plant.

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To date India has contracted for about \$5,600,000 worth of Communist construction projects. The contracts for the Panna Diamond mine and the steel mill, which seem certain to be signed in the very near future, would bring the total Communist credits in India to over \$100,000,000.

The bloc penetrated Indian planning circles during 1955. In reaction to an Indian request for experts, the USSR sent a team of high-level economists and mathematicians, including a former GOSPLAN member, to the Indian Statistical Institute in November 1954. Poland sent one of its top economic planners, Oscar Lange. These men reportedly have taken part, on the highest levels, in the Indian planning for the forthcoming Five-Year Plan. The Communist advisers have left but Poland's Oscar Lange reportedly will return in 1956. In addition to Russian, Czech and Polish offers to assist in Indian economic planning, the East Germans have recently stated that they were interested in participating in the Indian second Five-Year Plan.

India's second Five-Year Plan places heavy emphasis on the rapid development of industry. In terms of Indian resources, however, the plan is overly ambitious and there have been hints that New Delhi will request \$1.5 billion in US aid.

Afghanistan

Growing economic links with the bloc and Prime Minister Daud's anti-Pakistani policy make Afghanistan most immediately susceptible to Soviet blandishments.

During 1954 the Czechs extended \$5,000,000 credit and the USSR approximately \$6,800,000 credit to Afghanistan. Under Czech credit, one cement plant is under construction, while

negotiations are being carried on for a cannery, glass factory, and briquette plant. Czechoslovakia reportedly has given another credit of \$10,000,000 and may offer a further \$5,000,000. Under Soviet credit, gasoline and grain storage facilities, flour mill and bakery, and road-building projects are completed, or are in the final stages of construction, and a gasoline pipeline into Afghanistan from the Soviet border still is under discussion.

The Soviet interest rate is unknown, but the Czechs have extended credit at an interest rate of 3 percent repayable in Afghan exports.

In August 1955 there were 127 Soviet technicians reported in Afghanistan. Reports persist of more Soviet offers, including hospital, university teachers and equipment, and water systems. The USSR has reportedly offered to take over the large Helmand Valley irrigation and power project, finish construction, and pay off the US loan.

As a direct result of Afghanistan's quarrel with Pakistan, improvement of roads leading to the USSR is being rushed, and a new Oxus River entry port is being developed. Increasing amounts of free world-Afghan trade are now reportedly being shipped through the USSR more quickly and at the same cost or less than over the old route through Pakistan.

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Egypt

There have been offers of credits and technical assistance to several Arab countries, but Egypt has apparently been given first priority.

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## CURRENT INTELLIGENCE WEEKLY SUMMARY

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25X1 Soviet ambassador to Cairo Solod first indicated in late May that Moscow would supply Egypt with arms in exchange for cotton.

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Although the purchase of bloc arms and the use of bloc technicians will obviously provide opportunities for short-term penetration, Egypt's driving ambition to construct the TVA-like 1.3 billion dollar Sadd-el-Aali project (the Aswan High Dam complex) and the frustration Egypt feels it has experienced in trying to obtain Western finance provides an ideal opportunity for even longer-range exploitation.

Following the public announcement in October of the Soviet offer to build the Aswan High Dam, the Egyptian ambassador in Washington said that the USSR had suggested a 30-year loan for an unspecified amount at 2 percent interest payable in Egyptian cotton and rice. The estimated cost of the dam is approximately \$480,000,000. Equipment worth \$275,000,000 would have to be imported. By providing equipment and technical assistance, the Soviet Union can create at Aswan an enormous monument to Soviet industry in the Middle East.

In addition to the arms deal and offer on the Aswan High Dam, bloc countries are known to have signed contracts for capital construction projects worth an estimated \$3,350,000.

If Egypt accepts the Soviet offer for the Aswan Dam, total bloc credits to Egypt would exceed \$415,000,000.

Additional Bloc Activity

The Communists are making new offers for arms and capital construction almost daily in other free world countries. Syria is on the verge of signing a contract for bloc arms which may reach \$10,000,000. Jordan, Yemen, and Saudi Arabia reportedly have sought or have been offered bloc arms.

The Sino-Soviet bloc has used trade to encourage neutralist sentiment in Egypt and Burma during the past year by contracting to take a large part of the cotton and rice surpluses of these countries.

The total value of Communist credits to free world countries may well reach \$400,000,000 within the next six months. This figure includes known contracts for arms, firm deals for nonmilitary credits and projects, and only firm Communist offers which seem most likely to be accepted. It does not include additional reported credits about which the outcome is in some doubt. Should Egypt accept the Soviet offer of about \$275,000,000 of goods and services to help with the Aswan High Dam project, the total of Communist credits granted for arms and construction projects would then be around \$700,000,000.

Besides arms deals, contracts have been signed and work is actually under way on projects using bloc credits, personnel, and equipment to the amount of \$43,000,000.

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